

Message Text

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50

ACTION EB-11

INFO OCT-01 L-03 EA-11 EUR-25 ABF-01 SS-15 DRC-01 RSC-01

ISO-00 /069 W

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R 280745Z SEP 73

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 7090

INFO AMEMBASSY BONN

AMEMBASSY SEOUL

LIMITED OFFICIAL USE SECTION 1 OF 2 TOKYO 12564

STADIS////////////////////////////////////

E.O. 11652: N/A

TAGS: EIND, ETRD, EGEN, OTRA, AFSP

SUBJ: GAO INQUIRIES INTO STEEL VRA AND TEXTILE IMPORT PROGRAMS

REF: A. STATE 190671; B. STATE 188470 (NOTAL); C. TOKYO
12280 (NOTAL); D. TOKYO 12185 (NOTAL)

SUMMARY: GAO AUDITORS HAVE ARRIVED TOKYO AND HAVE HELD DISCUSSIONS WITH EMBASSY OFFICERS. AUDIT RESULT OF REQUEST FROM CONGRESSMAN SAM M. GIBBONS. EMBASSY POUCHING CERTAIN DOCUMENTS RELATED TO AUDIT TO DEPT. GAO QUESTIONS FOCUSED ON ATTITUDE OF JAPANESE TOWARD AGREEMENTS, US OUTSIDE CONCESSIONS MADE TO OBTAIN AGREEMENTS, EMBASSY INVOLVEMENT IN NEGOTIATIONS AND MONITORING OF AGREEMENTS AND COST, AND COST TO US CONSUMERS OF MAINTAINING THESE AGREEMENTS. EMBASSY OFFICERS DISCUSSED THESE QUESTIONS, MADE SELECTED FILES AVAILABLE AND ARE MAKING APPOINTMENTS FOR GAO AUDITORS WITH CERTAIN GOJ AND TRADE ASSOCIATION OFFICIALS. END SUMMARY.

1. JOHN P. COMPETELLO, AUDIT MANAGER, AND FRANCIS W. GLYNN, AUDIT TEAM MEMBER, GAO, ARRIVED TOKYO EVENING SEPT 24. TEAM PLANS REMAIN IN JAPAN UNTIL OCT 10. TEAM WILL DEPART
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TOKYO FOR SEOUL OCT 10 TO AUDIT US TEXTILE AGREEMENTS WITH

KOREA.

2. GAO AUDIT UNDERTAKEN AS RESULT OF AUG 1 LETTER FROM CONGRESSMAN SAM M. GIBBONS, MEMBER HOUSE WAYS AND MEANS COMMITTEE, TO COMPTROLLER GENERAL ELMER B. STAATS. LETTER REQUESTED FULL REPORT ON COSTS AND EFFECADPOF TEXTILE AND STEEL AGREEMENTS. CONGRESSMAN GIBBONS ASKED SPECIFICALLY FOR REPORT ON LEGAL AUTHORITY FOR AGREEMENTS; COST OF AGREEMENTS IN BUDGETARY TERMS; OTHER COSTS, SUCH AS INCREASED COSTS TO CONSUMERS; EFFECT OF AGREEMENTS ON CARTELIZATION; AND NUMBER OF FEDERAL EMPLOYEES INVOLVED IN OPERATION OF AGREEMENTS. HE ASKED THAT FIRST PRIORITY BE GIVEN TO REPORT ON TEXTILE AGREEMENTS.

3. AUDIT TEAM PROVIDED POST WITH TWO PAGE SERIES OF QUESTIONS FOR USE IN TEXTILE AUDIT AND SIMILAR SERIES FOR STEEL AUDIT. AT TIME POST MADE COPIES OF THESE QUESTIONS WE ALSO OBTAINED COPIES OF LETTER FROM CONGRESSMAN GIBBONS, GAO GUIDELINES FOR AUDIT, MEMCON ON PRELIMINARY REPORT TO CONGRESSMAN GIBBONS, AND TRIP REPORT ON EARLIER VISIT BY GAO REPRESENTATIVE TO HONG KONG AND TAIPEI TO REVIEW TEXTILE AGREEMENT. GAO REPRESENTATIVES MAY NOT BE AWARE THAT POST HAS COPIES OF DOCUMENTS OTHER THAN SERIES OF QUESTIONS MENTIONED IN FIRST SENTENCE THIS PARAGRAPH. FULL SET OF DOCUMENTS BEING POUCHED EA/J AND EB/ORF.

4. GAO AUDIT TEAM BEGAN STUDY WITH SERIES OF DISCUSSIONS WITH EMBASSY OFFICERS. THEY MET WITH ECONCOM/MIN, ECON/COUNS, AND OFFICERS RESPONSIBLE FOR TEXTILES AND STEEL. FOLLOWING IS A SUMMARY OF DISCUSSION ON VARIOUS POINTS RAISED.

A. AUDITORS ASKED EMBASSY VIEW OF ATTITUDE OF GOJ AND JAPANESE INDUSTRY TO STEEL AND TEXTILE AGREEMENTS. EMBASSY POINTED OUT THAT AGREEMENTS OCCASIONED DIFFERENT REACTIONS. STEEL AGREEMENT DID NOT CAUSE ANY NOTICEABLE REACTION IN GOJ SINCE IT WORKED OUT WITH JAPANESE STEEL EXPORTERS ASSOCIATION. SINCE AGREEMENT PROCEEDED SMOOTHLY, GOJ DID NOT INVOLVE ITSELF IN MATTER. STEEL EXPORTERS WOULD HAVE PREFERRED NOT TO HAVE HAD AGREEMENT, BUT WERE NOT OVERLY LIMITED OFFICIAL USE

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CONCERNED. THIS RESULT OF UNDERSTANDING IN JAPANESE STEEL INDUSTRY OF DIFFICULTIES FACED BY US STEEL INDUSTRY. FURTHER, AGREEMENT DID NOT CALL FOR REDUCTION IN AMOUNT OF STEEL EXPORTS, BUT ONLY FOR MORE ORDERLY GROWTH. ADDITIONAL FACTOR WAS APPRECIATION OF JAPANESE STEEL INDUSTRY FOR ASSISTANCE PROVIDED IT BY US STEEL INDUSTRY IN IMMEDIATE POSTWAR PERIOD, WHICH JAPANESE INDUSTRY FELT IT COULD REPAY IN PART BY CO-OPERATING DURING TIME OF DIFFICULTY IN US STEEL INDUSTRY.

EMBASSY POINTED OUT THAT TEXTILE AGREEMENTS HAD ALSO TO BE DIVIDED INTO TWO SEPARATE GROUPS. COTTON AGREEMENT HAD SERIOUS POLITICAL OVERTONES WHEN ORIGINALLY NEGOTIATED AND WAS DIFFICULT FOR JAPANESE INDUSTRY AND GOJ. INDUSTRY, IN PARTICULAR, OPPOSED INITIAL AGREEMENT. AT PRESENT TIME CONDITIONS HAVE CHANGED AND JAPANESE INDUSTRY NO LONGER NEGATIVE IN ITS APPROACH. WOOL AND MAN-MADE FIBERS AGREEMENT HAD PRESENTED GOJ WITH POLITICALLY DIFFICULT PROBLEM AT TIME OF ITS NEGOTIATION. INDUSTRY HAD BEEN OPPOSED TO AGREEMENT. AS WITH COTTON, HOWEVER, CONDITIONS HAVE CHANGED AND JAPANESE INDUSTRY VIEW HAS MODIFIED CONSIDERABLE. EMBASSY POINTED OUT THAT RISING COSTS IN JAPAN HAD MADE JAPANESE TEXTILES LESS COMPETITIVE IN WORLD MARKETS AND HAD RESULTED IN INCREASED TEXTILE IMPORTS INTO JAPAN. IT WAS POINTED OUT THAT IN SOME CASES US TEXTILES COULD COMPETE IN JAPANESE MARKET. SINCE JAPANESE TEXTILE INDUSTRY NOW UNDER PRESSURE AT BOTH LOW COST AND HIGH COST ENDS OF TEXTILE MARKET, JAPANESE INDUSTRY MORE FAVORABLE TO AGREEMENT THAT MIGHT BE USED BY JAPANESE INDUSTRY TO LIMIT IMPORTS AT SOME FUTURE DATE.

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INFO OCT-01 L-03 EA-11 EUR-25 ABF-01 SS-15 DRC-01 RSC-01

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----- 090038

R 280745Z SEP 73

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TO SECSTATE WASHDC 7091

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B. AUDITORS ASKED IF US HAD MADE ANY OUTSIDE CONCESSIONS TO OBTAIN STEEL OR TEXTILE AGREEMENTS. EMBASSY OFFICERS

STATED THAT TO BEST OF THEIR KNOWLEDGE NO OUTSIDE CONCESSIONS HAD BEEN MADE IN OBTAINING EITHER AGREEMENT.

C. AUDITORS ASKED EXTENT TO WHICH EMBASSY PERSONNEL INVOLVED IN NEGOTIATION OF AGREEMENTS AND IN MONITORING OPERATION OF AGREEMENTS. EMBASSY OFFICERS STATED THAT WITH REGARD TO STEEL AGREEMENT ECONCOM/MIN HAD ON OCCASION TRANSMITTED DRAFTS BETWEEN TWO SIDES IN NEGOTIATIONS AND HAD MADE EXPLANATIONS TO CLARIFY CERTAIN POINTS DURING COURSE OF NEGOTIATIONS. THIS INVOLVEMENT HAD BEEN MINIMAL IN TERMS OF COST. AT PRESENT TIME EMBASSY HAS NO RESPONSIBILITY FOR ANY MONITORING FUNCTION WITH REGARD TO THIS AGREEMENT AND ONLY ON RARE OCCASIONS PASSES REQUESTS FOR CONSULTATIONS TO JAPANESE STEEL EXPORT ASSOCIATION. WITH REGARD TO LTA IT WAS POINTED OUT THAT EMBASSY RECORDS DO NOT GO BACK FAR ENOUGH TO INDICATE WHAT INVOLVEMENT, IF ANY EMBASSY HAD IN ORIGINAL NEGOTIATIONS. EMBASSY CURRENTLY DOES NOT MONITOR AGREEMENT OR HAVE ANY OTHER INVOLVEMENT. EMBASSY OFFICERS SAID THAT NEGOTIATION OF WOOLEN AND MAN-MADE FIBERS AGREEMENT HANDLED BY SPECIAL WASHINGTON TEAM HEADED BY AMB KENNEDY. EMBASSY HAD NO INVOLVEMENT IN NEGOTIATIONS LIMITED OFFICIAL USE

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AND DOES NOT MONITOR AGREEMENT. EMBASSY OFFICERS STATED THAT BEYOND MADPNG SOME ARRANGEMENTS FOR MR. JURICH, WHO REPLACED AMB KENNEDY, WHEN FORMER VISITS TOKYO, EMBASSY HAS NO RESPONSIBILITIES WITH REGARD TO TEXTILE AGREEMENTS.

D. AUDITORS ASKED FOR ESTIMATE OF EMBASSY COSTS WITH RELATION TO STEEL AND TEXTILE AGREEMENTS. EMBASSY OFFICERS POINTED OUT THAT EMBASSY ROLE WAS VIRTUALLY NON-EXISTENT AND THUS COSTS WERE NIL.

E. AUDITORS ASKED FOR EMBASSY ESTIMATES ON INCREASED COSTS TO US CONSUMERS AS RESULT OF AGREEMENTS AND SUGGESTIONS ON HOW SUCH COST COULD BE QUANTIFIED. EMBASSY OFFICERS STATED THAT THEY HAD NO ESTIMATES ON INCREASED COSTS WHICH COULD BE ATTRIBUTED TO THESE AGREEMENTS. THEY POINTED OUT THAT IT IS A BASIC LAW OF ECONOMICS THAT IF YOU LIMIT SUPPLY AND NOT DEMAND YOU INCREASE PRICE. EMBASSY OFFICERS STATED HOWEVER THAT THIS BASIC PRINCIPLE DID NOT APPLY IN CURRENT MARKET TO STEEL VRA OR TO LTA. IT WAS NOTED THAT JAPAN WILL NOT FILL ITS QUOTAS UNDER THE VRA OR LTA THIS YEAR AND THUS THESE TWO AGREEMENTS DO NOT REDUCE SUPPLIES AVAILABLE TO US MARKET. EMBASSY COULD OFFER NO SUGGESTIONS ON HOW COSTS COULD BE QUANTIFIED OTHER THAN BY REVIEW IN WASHINGTON WHERE TOTAL RESULTS OF RESTRAINTS COULD BE OBTAINED. IN RESPONSE TO A DIRECT QUESTION, EMBASSY OFFICERS STATED THAT THEY DID NOT BELIEVE THAT THERE WAS ANY SELLING OF QUOTA ALLOWANCES IN JAPAN THAT WOULD

CONTRIBUTE TO THE END PRICE PAID BY THE US CONSUMER. EMBASSY OFFICERS QUESTIONED IF SUCH PRACTICE, EVEN IF IT EXISTED, WOULD IN FACT INCREASE FINAL SALE PRICE. WE POINTED OUT THAT GOODS NORMALLY SOLD FOR PRICE MARKET WILLING TO PAY AND ANY ASSUMPTION THAT PRODUCER WOULD SELL AT LOWER PRICE IF HIS EXPENSES WERE LOWER SEEMED TO OVERLOOK PROFIT MAXIMIZATION EFFORTS ON PART OF PRODUCER.

F. AUDITORS ASKED IF AGREEMENTS HAD ANY EFFECT ON CARTELIZATION IN INDUSTRIES CONCERNED. EMBASSY OFFICERS POINTED OUT THAT JAPANESE STEEL INDUSTRY HIGHLY COORDINATED AND ADAPTILE INDUSTRY MORE FRAGMENTED. GAVE VIEW THAT AGREEMENTS HAD NO EFFECT ON DEGREE OF CARTELIZATION WITHIN CONCERNED INDUSTRIES.

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G. AUDITORS ASKED IF AGREEMENTS ENCOURAGED MONOPOLISTIC PRICING PRACTICES IN INDUSTRIES CONCERNED. EMBASSY OFFICERS POINTED OUT THAT THERE WERE ASPECTS OF MONOPOLISTIC PRICING PRACTICES IN JAPAN, BUT STATED THEIR BELIEF THAT AGREEMENTS HAD IN NO WAY EITHER ENCOURAGED OR DISCOURAGED SUCH PRACTICES.

H. AUDITORS ASKED IF JAPAN RESTRICTS IMPORT OF US STEEL OR TEXTILES. EMBASSY OFFICERS STATED THAT THEY WERE NOT AWARE OF ANY JAPANESE RESTRICTIONS ON EITHER US STEEL OR TEXTILE IMPORTS ON THE PART OF THE GOJ.

I. AUDITORS ASKED EMBASSY VIEWS ON RATIONALE FOR RESTRAINT ARRANGEMENTS. EMBASSY OFFICERS STATED THAT TO BEST OF THEIR KNOWLEDGE IN ALL CASES AGREEMENTS HAD BEEN RESULT OF DIFFICULTIES BEING EXPERIENCED BY INDUSTRIES IN US AND RESULTANT PRESSURE FOR CORRECTIVE ACTION. EXPRESSED VIEW THAT IF AGREEMENTS HAD NOT BEEN COMPLETED, ALTERNATIVE MAY WELL HAVE BEEN CONGRESSIONAL ACTION TO PLACE LEGISLATIVE RESTRAINTS ON IMPORTS. EMBASSY OFFICERS NOTED THAT IN THEIR VIEW ISSUES INVOLVED HAD SIGNIFICANT POLITICAL OVERTONES IN US, BUT THAT IT WOULD BE PRESUMPTIVE TO ATTEMPT ASSESS IMPLICATIONS FROM TOKYO.

J. AUDITORS ASKED EMBASSY VIEWS ON ALTERNATIVES TO CURRENT AGREEMENTS. EMBASSY OFFICERS STATED THAT PROBLEM WAS MANY SIDED AND THAT MANY MOVES NOW UNDER WAY THAT COULD EFFECT FUTURE EVENTS. IN PARTICULAR THEY NOTED CHANGES IN EXCHANGE RATES OVER PAST TWO YEARS, CURRENT DEMAND LEVELS FOR ALL GOODS, AND MONETARY AND TRADE NEGOTIATIONS NOW UNDERWAY. AS WITH OTHER POINTS RAISED, HOWEVER, EMBASSY OFFICERS OFFERED VIEW THAT WASHINGTON, WITH ACCESS TO ALL INFORMATION AVAILABLE ON THIS SUBJECT, WAS PLACE TO CONSIDER ALTER-

NATIVES ANADPOT EMBASSY TOKYO WHICH LIMITED IN LARGE PART
TO WORKING ONLY WITH INFORMATION ON JAPAN.

5. EMBASSY HAS MADE SELECTED FILES AVAILABLE TO GAO AUDI-
TORS AND IS MAKING APPOINTMENTS FOR THEM TO MEET WITH GOJ
AND CERTAIN TRADE ASSOCIATION OFFICIALS. WILL REPORT RE-
SULTS THESE CALLS SEPTEL.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
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Draft Date: 28 SEP 1973
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Disposition Approved on Date:
Disposition Authority: elyme
Disposition Case Number: n/a
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From: TOKYO
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